



STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

*Capitol Plaza Building, PO Box 40912 • Olympia, Washington 98504-0912 • (360) 570-6100*

May 10, 2006

**TO:** Representative Jim McIntire, Chair  
Senator Joseph Zarelli  
Senator Mark Doumit  
Representative Ed Orcutt  
Victor Moore, OFM, Director  
Cindi Holmstrom, DOR, Director

**FROM:** ChangMook Sohn, Executive Director  
Economic and Revenue Forecast Council

**SUBJECT:** May 10, 2006 REVENUE COLLECTION REPORT

High fuel prices and rising interest rates were expected to slow economic and revenue growth, however, revenue collections over the last three months show no signs of slowing. General Fund-State (GFS) collections totaled \$1,096.8 million in the April 11–May 10, 2006 collection period. Revenue growth this month remains very strong and tax payments are once again higher than expected. Receipts for the current period are \$38.2 million (3.6 percent) above the estimate. As has been the case for most of the year, Revenue Act taxes (sales, business and occupation, use, and public utility), and real estate excise tax payments account for the majority of the positive variance this month. Revenue Act sources exceed the estimate by \$31.5 million and real estate excise tax payments are \$12.1 million higher than expected. Other major taxes with GFS tax payments are a little less than expected this month. This month's higher than expected receipts, increases the cumulative variance in the three months since the February forecast GFS tax payments to \$121.2 million (4.7 percent).

Most recent economic news continues to be very positive. U.S. Real Gross Domestic Product increased 4.8 percent in the first quarter of 2006. This was much higher than the 1.7 percent gain in the last quarter of 2005 and the best quarterly gain since 2003. The U.S. unemployment rate was unchanged in April, however, the April jobs number was less than expected. The U.S. economy added only 138,000 jobs in April and the March number was revised down to 200,000. April's job gain was the weakest since last October. The April U.S. unemployment rate, however, remained at 4.7 percent, a five-year low. Washington's labor market appears better than the U.S. The Washington unemployment rate in March was 4.6 percent, 0.1 percent lower than the U.S. rate and the lowest since November of 1999. Other positive news includes the report from the Conference Board that their Index of Consumer Confidence, which was up in March, increased again in April. The Index is now at the highest level in four years. Somewhat less bullish, the Conference Board again reported that the U.S. Index of Leading Indicators decreased 0.1 percent in March and that the February decrease was revised down. Despite the decline the last two months, the index had increased 1.9 percent during the six-month span ending in March.

Revenue Act collections were \$31.5 million higher than expected this month. Payments included a large (\$2.0 million) and unexpected audit payment; however, the vast majority of the variance is due to much stronger than expected economic growth. Tax payments this period primarily reflect March 2006 activity of monthly taxpayers and the first quarter of 2006 activity of quarterly filers. Despite rising energy costs and interest rates, consumers and business have as yet reduced spending on taxable goods. This month Revenue Act receipts were 10.7 percent higher than a year ago. Last month Revenue Act receipts

increased 12.6 percent (revised); the average growth for the first quarter of 2006 is a very strong 11.6 percent. Growth this quarter (with the exception of the third quarter of 2005) is the strongest since the late 1980's. Revenue growth continues to significantly exceed income growth and the growth of U.S. retail sales. For the first three quarters of fiscal 2006, Revenue Act collections are a remarkable 11.0 percent higher than a year-ago. Income is about 6.8 percent higher and U.S. retail sales are 7.6 percent higher for the same period.

Preliminary information on tax payments by industry for the current period again shows solid growth pretty much across-the-board. Tax payments by firms in the retail trade and food services sector increased 8.7 percent. Last month retailers reported a 6.0 percent increase. Four retailing categories reported double-digit increases this month: electronic and appliance stores (+26.5), general merchandise stores (+15.3), non-store retailers (+14.9 percent), and furniture and appliance retailers (+12.8 percent). Auto dealers, the largest retailing sector, reported a 6.9 percent increase; last month this sector was up 2.5 percent. Overall, tax payments of firms in non-retail trade and food services sectors were 6.7 percent higher than a year ago. Last month this category reported an 8.2 percent increase. Construction remained strong, with tax payments 16.4 percent higher than a year-ago. Last month this sector reported a 17 percent increase. There were a few weak non-retailing sectors this month. Tax payments from the manufacturing sector were 10.9 percent less than a year-ago. However, this was due to higher tax credit utilization, not weaker activity. Other relatively large sectors with year-over-year declines in payments include: professional services (-3.8 percent) and the information sector (-2.2 percent). The strength of real estate activity on overall revenue growth is again evident this month. Tax payments of firms in construction and housing related sectors increased 12.4 percent in compared to 6.4 percent for all other sectors.

Non-Revenue Act General Fund taxes were \$6.7 million above the estimate for the month. Real estate excise tax payments were again strong and accounted for more than the total non-revenue act variance (+\$12.1 million). Although most of this was due to stronger than expected activity, \$3.9 million was due to an accounting adjustment. Most other Non-Revenue Act taxes were a little less than expected this month. The largest negative Non-Revenue Act variance for the month was a \$2.2 million shortfall in unclaimed property transfers. Cumulatively for the three months since the February forecast, Non-Revenue Act taxes are \$24.2 million more than expected, with real estate excise taxes accounting for \$27.7 million.

Overall, real estate activity is still strong. Although growth in the most recent month is a little slower than the last couple of months, it is still higher was expected in the February 2006 forecast. Taxable real estate activity in the most recent month (closings in March which reflect tax payments to the state in April 2006) were 13.1 percent higher than a year-ago. In the prior month, activity increased 23.2 percent. The number of transactions were lower than the year ago month for the fourth straight month, however, prices remain strong. In the most recent month, the number of transactions declined 5.8 percent but the value per transaction increased 20.1 percent for the month. Last month the value per transaction increased 25.9 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$29,000 above the estimate for the month and are \$41,000 higher than expected in the three months since the February forecast.

The attached Table 1 provides a comparison of collections with the February 2006 forecast for the April 11, 2006 – May 10, 2006 collection period. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

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Attachments

**TABLE 1**  
**Revenue Collection Report**  
**May 10, 2006 Collections Compared to the February 2006 Forecast**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
<b>April 11 - May 10, 2006</b>				
Department of Revenue-Total	\$1,054,733	\$1,092,908	\$38,175	3.6%
Revenue Act** (1)	914,309	945,824	31,516	3.4%
Non-Revenue Act(2)	140,424	147,083	6,659	4.7%
Liquor Sales/Liter	11,354	11,730	376	3.3%
Cigarette	3,842	3,553	(289)	-7.5%
Property (State School Levy)	40,144	40,153	9	0.0%
Estate	89	(892)	(981)	NC
Real Estate Excise	67,988	80,121	12,132	17.8%
Timber (state share)	0	0	0	NA
Other	17,006	12,418	(4,588)	-27.0%
Department of Licensing (2)	3,886	3,915	29	0.8%
Lottery (5)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$1,058,619</b>	<b>\$1,096,823</b>	<b>\$38,204</b>	<b>3.6%</b>
<b>Cumulative Variance Since the February 2006 Forecast (Feb. 11, 2006 - May 10, 2006)</b>				
Department of Revenue-Total	\$2,582,113	2,703,311	121,198	4.7%
Revenue Act** (3)	2,308,573	2,405,547	96,975	4.2%
Non-Revenue Act(4)	273,540	297,763	24,223	8.9%
Liquor Sales/Liter	31,061	32,150	1,089	3.5%
Cigarette	11,171	11,531	360	3.2%
Property (State School Levy)	24,002	22,587	(1,415)	-5.9%
Estate	267	(200)	(468)	NA
Real Estate Excise	171,180	198,890	27,710	16.2%
Timber (state share)	2,496	2,249	(246.8)	-9.9%
Other	33,362	30,556	(2,806)	-8.4%
Department of Licensing (4)	4,546	4,587	41	0.9%
Lottery (5)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$2,586,659</b>	<b>\$2,707,898</b>	<b>\$121,239</b>	<b>4.7%</b>

1 Collections April 11 - May 10, 2006. Collections primarily reflect March 2006 activity of monthly taxpayers, and q1, 20006 activity of quarterly filers.

2 April 2006 collections.

3 Cumulative collections, estimates and variance since the Feb. 2006 forecast; (February 11 - May 10, 2006) and revisions to history.

4 Cumulative collections, estimates and variance since the February 2006 forecast;(Feb.- April 2006 collections) and revisions to history.

5 Lottery transfers to the General Fund

\* Based on the February 2006 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

**TABLE 2**  
**April 10, 2006 Collection Report - Revised Data**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
<b>March 11 - April 10, 2006</b>				
Department of Revenue-Total	\$812,555	\$812,563	\$8	0.0%
Revenue Act (1)	731,409	731,418	9	0.0%
Non-Revenue Act(2)	81,146	81,146	(0)	-0.0%
Liquor Sales/Liter	10,366	10,366	0	0.0%
Cigarette	5,125	5,125	(0)	-0.0%
Property (State School Levy)-net	(1,385)	(1,385)	(0)	0.0%
Estate	765	765	0	0.0%
Real Estate Excise	58,297	58,297	0	0.0%
Timber (state share)	0	0	0	NA
Other	7,978	7,978	(0)	-0.0%
Department of Licensing (2)	203	223	20	9.6%
Lottery (2)	0	0	0	NA
Total General Fund-State***	812,757	812,786	\$29	0.0%

**Cumulative Receipts: February 11 - April 10, 2006 & Revisions to History**

Department of Revenue-Total	\$1,610,396	\$1,610,393	(\$3)	-0.0%
Revenue Act (3)	1,459,716	1,459,713	(3)	-0.0%
Non-Revenue Act(4)	150,680	150,680	0	0.0%
Liquor Sales/Liter	20,420	20,420	(0)	-0.0%
Cigarette	7,978	7,966	(12)	-0.2%
Property (State School Levy)-net after transfer	(17,565)	(17,566)	(1)	0.0%
Estate	691	681	(10)	-1.4%
Real Estate Excise	118,769	118,797	28	0.0%
Timber (state share)	2,249	2,249	0	NA
Other	18,138	18,134	(4)	-0.0%
Department of Licensing (4)	652	726	74	11.4%
Lottery (4)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$1,611,048</b>	<b>\$1,611,120</b>	<b>\$72</b>	<b>0.0%</b>

Preliminary. Reported in the April 10, 2006 collection report.

1 Collections March 11 - April 10, 2006. Collections primarily reflect February 2006 business activity of monthly taxpayers.

2 March 1-31, 2006 collections.

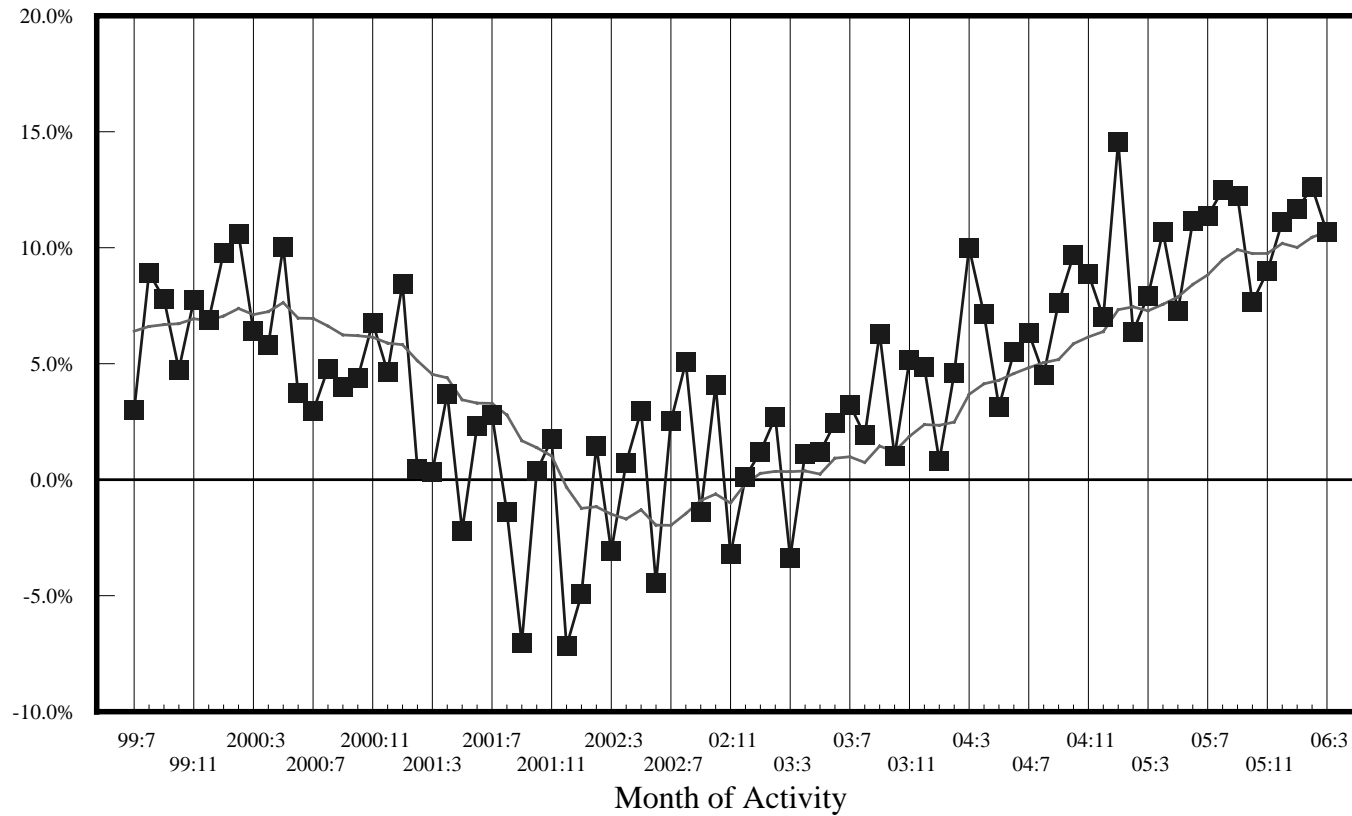
3 Cumulative receipts since the February 2006 forecast: Feb. 11-April 10,2006 & revisions to history.

4 Cumulative receipts since the Feb. 2005 forecast ( Feb. & March 2006) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

# Revenue Act Net Collections\*

Year-over-Year Percent Change



—■ %CH from year-ago month

— %chya (12 month moving average)

\*collections excluding new legislation and special factors